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IMPACT OF MANAGEMENT AUDITING

By

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Every audit organization has to adapt its concepts and methods of operation to the specific environment in which it was created to operate. For this reason, the term "management auditing" does not always mean the same thing to all auditors or to all managers or other users of audit results. Also for

to some of the audit work of the U. S. General Accounting Office. By reason of long association with GAO, I know more about that work and its impact than I do about the operations of other audit organizations and institutions.

First, let me try to define the subject. The term "management auditing" itself has no generally accepted meaning. As we all know, there is more than one term in use to identify audit operations that go beyond what many consider to be the traditional scope of the auditor. Thus, we encounter such varying terms--in addition to management auditing--as operational

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auditing, performance auditing, and broad scope auditing-- and you have probably heard others.

In GAO, we veer away from labels such as these and try to describe our audit operations in terms of broad aspects of management responsibilities. In this way, we come out with our structure with the three fairly well-known components of a complete audit, namely:

- Audit of financial operations and compliance with regulatory and legal requirements.
- Evaluation of economy and efficiency with which operations, procedures, and transactions are carried out.
- Audit of program results--or evaluation of effectiveness or progress in achieving established objectives.

Each of these components is important and each relates to an integral part of management's responsibility. No one of them can be pulled out and identified as "management auditing" to the exclusion of the others. All are important and the objective of each is to evaluate performance and where appropriate identify courses of action for constructive improvement.

Another general point to make is that the measure of the auditor's worth is to be found in the simple word "impact," which is the primary subject of this discussion. For example:

What effect is he having on the organization audited?

What changes in procedures or performance does his work or his very presence bring about?

What improvements take place?

What does his work contribute in the form of conserving resources, avoiding waste and extravagance, increasing revenues, or cutting costs?

What information does he dig up and disclose that is valuable to--and not otherwise readily obtainable by--managers, policy-makers, owners--and in public operations, legislators and the public?

There are many ways to measure or identify the auditor's impact, if one can take the time to do so. Sometimes the impact is indirect, sometimes long delayed, sometimes not very discernible--but there is always some, else the auditor is not doing his job.

But enough general discourse on the conceptual plane. A few examples drawn from actual GAO audit operations can do a much better job of conveying to you some of our ideas on what the work of the auditor should embrace and what his impact can be.

Air Conditioning of Military
Family Housing in Hawaii

Three years ago the Department of Defense specified that all existing and future family housing in Hawaii be air-conditioned--an across-the-board requirement. We examined into this program because of the high cost of installation and later maintenance and operation and because of the increased requirements for using energy.

We estimated that the costs of installing such facilities could run as high as \$100 million and annual operating and maintenance costs would increase by millions of dollars. We concluded that the blanket policy of centrally air conditioning all military family housing units in Hawaii was unnecessary for several reasons:

- The requirement for air-conditioning did not consider the cooling effect of trade winds and the consistently moderate temperature and humidity conditions which gives Hawaii one of the most pleasant climates in the world and makes it one of the most sought-after States to live in and visit.
- Central air conditioning is not common in Hawaiian townhouses and private homes, including those in the luxury category, and, generally, it is not essential to the health, welfare, or morale of persons living in Hawaii.
- The military services in Hawaii themselves do not believe that air conditioning is needed, except on a site-by-site basis at some locations having unusual weather or noise problems.

--Other Federal agencies, such as the Federal Housing Administration and the U. S. Coast Guard, do not believe that air-conditioning is needed throughout Hawaii, although it might be desirable in certain locations.

--Across-the-board installation of central air-conditioning would aggravate Hawaii's existing energy problems.

The latter point is of especial interest in these days of growing shortages of energy sources. Hawaii has been one of the States most affected by the supply and cost problems related to oil consumption. Almost all of Hawaii's electric power is produced from imported oil.

To air-condition all new and existing military family housing, as proposed by the Department, would further aggravate Hawaii's energy problems. We expressed the opinion that would be a luxury that Hawaii's energy sources, at this time, could not afford.

Our report went to the Congress in May 1974.¹ One result was to give some newspaper headline writers an opportunity to have a little fun. The report led to such headlines as:

Pentagon Puts Up Cool Fight for Hawaii Air Conditioning

Air-Conditioning Proposal Given Cool Reception

Cooling Hawaii Homes Leaves Probers Cold.

The air-conditioning proposal did generate some interest on the congressional front. Senator William Roth of Delaware was especially

concerned and on September 11 he introduced on the floor of the Senate an amendment to the military construction authorization bill to prohibit using any appropriated funds for air-conditioning military family housing units in Hawaii. His amendment was adopted. In discussing the amendment, the Senator noted:

"When we are seeking ways to cut the Federal budget to help control inflation, there can be no justification for spending \$100 million on air-conditioning homes where climatic conditions are close to ideal."²

This example shows that the auditor can have an impact if he presents a clear case and the issues are current. In this case, the combination of budgetary and energy aspects excited fairly prompt attention. This case also illustrates that reviewing of policies--before they are put into effect and expenditures made--can be more productive of impact than postreview of expenditures.

Protecting Consumers from Defective Pesticides

Concern is and has been widespread about the effects of pesticides on man and on his environment. Rachel Carson's well-known work of a few years ago highlighted this concern far better than learned reports, commentary by scientists, or opinions of auditors. The field is not one that many people expect auditors to operate in or to contribute to.

However, GAO has examined the effectiveness of Federal programs which have as one objective the protection of the public from dangerous or defective pesticides. The most recent of these audits was completed in May 1974. Its objective was to evaluate the policies and practices of the Environmental Protection Agency for determining whether pesticides are marketed in compliance with the basic pesticide consumer protection law which bears the somewhat overpowering name-- the Federal Insecticide, Fungicide, and Rodenticide Act. This act requires, simply, that all pesticides shipped interstate be safe and effective and be registered with EPA before being sold to the public.

The auditors found that consumers have not been adequately protected from defective pesticides. The agency's efforts to determine whether registered pesticides were marketed in accordance with the law were just not adequate.

Sampling by EPA inspectors was deficient in that they repeatedly sampled some pesticides but never sampled others. About 32,000 different pesticides were registered at the time of the audit but only about 7,000 had been sampled during the preceding 4½ years. Nearly two-thirds of the manufacturers in the 3 regions of the agency included in the audit did not have any of their pesticides sampled by EPA during this period.

Lack of personnel, space, and equipment was cited by the agency as reasons for its inability to test most samples taken for safety and effectiveness. Since the tests that were made showed alarming degrees of defectiveness, the failure or inability to conduct more complete tests of samples drawn meant that the agency was not providing the public the protection contemplated in the law.

Even when defective pesticides were found, the manufacturers were not always notified and normally the agency never notified the consuming public. In some cases, other Federal agencies purchased pesticides which EPA found to be defective or chemically deficient and they in turn recommended their use to consumers--a kind of domino defect.

The findings led to a long string of audit recommendations for tightening up the agency's procedures. EPA agreed generally with the auditors' findings and recommendations. Before the audit report was completed, the agency started proceedings to cancel the registration of 32 ineffective pesticides and took steps to provide for the prompt public release of information on its enforcement activities.³

"A Few Good Men"

A common sight on many street corners in the United States these days is the legend "The Marine Corps needs a few good men."

In our study of Marine Corps plans for the work forces at its Finance and Automated Services Centers in Kansas City, our auditors found a good source to help meet this need. They noted that the Corps planned to continue to employ at the Centers 272 Marines, whereas their analysis showed that those Marines could be replaced by 249 civilians at an annual savings of almost \$1 million a year. Besides the savings and the release of Marines for military duties, the Centers' overall efficiency would be increased by the greater stability of a civilian workforce.

These most reasonable observations were conveyed to the Secretary of Defense in a short report completed in June 1974⁴ with the recommendation to "civilianize" the workforce at the Centers and to make similar studies at similar activities of the Army, Navy, and Air Force.

Three months later, we received a letter from the Department of Defense expressing reservations about some of our observations but noting that "Notwithstanding these points, the conclusion that the Centers should be staffed essentially with civilians remains valid." It then went on to state that the Marine Corps was reviewing the manning of the Centers in the light of our report and we are confident they will find some of their "good men."

Shortages of Doctors and Dentists

What can auditors do about shortages of doctors, dentists, and other health professionals? The answer to this question is that they can perform the same kind of service here as for any other problem in which the Government injects itself for the purpose of helping out. Auditors can review programs of action, analyze procedures and accomplishments, identify better ways of doing things, and propose recommendations for improvement.

Over 10 years ago the Congress authorized programs of financial assistance to students with exceptional needs as part of an overall program to meet anticipated national shortages of doctors, dentists, and other health professionals. The program was given the name of Health Professions Student Assistance Program and it wasn't long--in this day and age of the acronym--before it became known more familiarly as HPSAP.

The apparent objectives of the program were:

- to increase the number of qualified applicants to health professions schools.
- to attract more health professions students from low-income families; and
- to encourage physicians and dentists to practice in shortage areas.

About \$300 million of Federal funds were used up to last year to assist students under this program. For the 1971-72 school year, over 35,000 students received assistance under the program and they represented over a third of the total number of students enrolled in participating health professions schools.

GAO's audit of this program led to the overall observations that it did not appear that the program had had a significant impact on:

- Increasing the output of the Nation's medical and dental schools.
- Improving the quality of medical and dental students, and
- Influencing medical and dental school graduates to locate their practices in shortage areas, such as inner city and rural areas.

The auditors did observe that the program had helped persons from low-income families to get into the health professions but they also noted that much more could have been done in this respect.

The Department of Health, Education, and Welfare was the Federal agency responsible for the program but it didn't provide any too much guidance to medical schools as to what constituted acceptable financial need on the part of the students. One result was

the allowance of some quite questionable student expenses.

For example:

- Up to \$300 a month for transportation.
- Up to \$300 a month for housing.
- Expenses for books, equipment, and supplies that exceeded the actual cost of such items anywhere from \$300 to \$1500.
- For questionable items such as feed for a spouse's horses, a summer European tour, and even an abortion for a student's girl friend (the latter loan was later cancelled after GAO auditors inquired about it).

Tightening up on these kinds of looseness with public funds was one impact of the audit. Another was the information produced that should be helpful to the Congress in considering the future of the program.

For example, a major part of the audit was to find out whether the program had much influence on where doctors and dentists practiced after graduation. Portions of loans received could be cancelled if a recipient practiced in a designated shortage area for a specified period of time. The auditors found, however, that this arrangement had little impact on individual decisions on where to practice. Many students were not even aware of the provision and others didn't find the

financial incentive enough to overcome their problems with what they considered to be undesirable aspects of practice in the shortage areas. They also found that a large number who did set up practice in such areas said they would have done so irrespective of the loan cancellation provisions of the assistance program.

The GAO audit produced a flock of recommendations for improving the management of the program (which I won't detail here) and the Department agreed with them.

The audit report⁵ was released on May 24, 1974, which was timely in light of the fact that the existing law was expiring on June 30. On May 29, GAO representatives testified on the findings of the audit before the House Committee on Interstate and Foreign Commerce. Not long after, Senator Javits placed in the Congressional Record the entire chapter from the audit report summarizing the conclusions and recommendations along with the departmental comments and GAO's evaluations of those comments.⁶ This action made the essence of the audit report widely available to those in the Congress--and to many on the outside--interested in the subject.

Without going into all the details relating to the current health manpower legislation, I should note that the subject warmed up again recently when the Senate resumed consideration of it.

One Senator referred to the GAO report as one of two recent studies that concluded that the loan forgiveness method of inducing medical practitioners to locate in shortage areas had not been successful.⁷ Another Senator also used the audit report to support his conclusion as to the inadequacy of the existing law on this point.⁸ The Senate bill as passed calls for medical schools to guarantee that 25 percent of their graduates will serve in shortage areas as a condition for receiving so-called capitation grants. It also provides medical schooling without cost to students who sign up to serve in shortage areas after graduation--a process similar to that of the military academies. The final alternatives that the Congress will come up with is still in doubt but my reason for mentioning all this is that audit reports can and do have an important impact on the development of legislation.

Minerals from Public Lands

Another GAO audit relating to the country's energy, conservation, and materials shortage problems concerned the Mining Law of 1872. This law was enacted over a hundred years ago to promote development of U.S. mineral resources and induce settlement in the West.

The objective of inducing western settlement has been accomplished but our audit brought out that the law is not effectively encouraging development of minerals on Federal

land and has in fact adversely affected the management and use of the land.

Our auditors visited a randomly selected sample of 240 mining claims and 93 mineral patents in 10 counties in Arizona, California, Colorado, and Wyoming. Their findings, which are described in detail in a GAO report to the Congress completed in July 1974, provided extensive evidence of the need to modernize the mining law.

An important circumstance relating to the law is the growing dependence of our country on foreign supplies of many critical and strategic mineral ores and the possibility of our being cut off for economic or political ends. This circumstance strongly suggests the need for action by the Federal Government to stimulate exploration and development of our domestic mineral resources.

The auditors found many disconcerting problems that cried out for a better law. For example, only 1 of the 240 mining claims visited was actually being mined. Claims can be filed but there is no Federal control to insure mineral development. Only 7 of 93 mineral patents were being mined. Sixty-six were not being used for any purpose and 20 were being used for non-mining purposes such as residences and grazing. Records as to existence of mining claims on Federal lands are in very bad shape.

The need for modernization of the law is further underscored by the fact that the 1872 law has no provisions for protecting or rehabilitating lands covered by mining claims or mineral patents.

A further problem noted was financial. The 1872 law does not require that the Federal Government be paid for minerals mined or for use of the lands. Only nominal amounts are charged for land conveyed under mineral patents. For example, 41 of the 93 patents reviewed by GAO had a fair market value of \$1.1 million in February 1974. This compares to the \$12,000 paid to the Government when the patents were issued. Taxpayers have good reason to complain about inadequate remuneration for use of their resources.

The audit report, which contains many details of the auditors' findings together with pictures and examples of misuse of public lands, recommended that the Congress change the law and include provisions to correct the defects found, including establishing a leasing system for extracting minerals from public lands.⁹

The Department of the Interior which has the job of administering the law was of course well aware of many of the things the auditors reported and it has been working with congressional committees to bring out a better law. But it did "welcome" the GAO report and expressed the hope that

the Congress would "move speedily to provide us with a law more in keeping with the times." When the Congress takes up consideration of this problem, we are confident the audit report will receive considerable use and provide Members of Congress with a great deal of information to help them consider the matter.

Other Audit Work

The Comptroller General sends to the Congress each year several hundred audit reports on diverse aspects of the Federal Government's wide-ranging activities. For this reason, I can only provide a sampling of the nature of the audit work performed and an indication of impact.

We do not find it necessary to keep records on all of the constructive impact that our audit work produces. However, we do have a system of internal accomplishment reports that communicates upward in our channels information on significant achievements.

Some recent examples:

- An annual saving of over \$1 million is resulting from requiring Mexicans illegally in this country to pay the costs of transporting them back to Mexico.
- More efficient use of money to buy coffee for the military services is resulting from adopting a more flexible blending formula in lieu of the rigid 70

percent Brazilian and 30 percent Columbian coffee that had been followed. (The services buy 25½ million pounds of coffee a year.)

- A review of equipment usage at an air materiel area led to the agency's identifying nearly \$1 million in equipment as excess to its needs and available for use elsewhere.
- The safety of military hospital patients was increased as a result of better guidance from the Department of Defense and the Veterans Administration on the use of disposable catheters and guidewires in vascular studies. A GAO survey found that some hospitals were reusing them despite warnings of possible infections, allergenic reactions, and breakage.

Without exhausting the possibilities, the following list of impacts that government auditors can have for better management and better government is indicative of the importance of their function. They can bring about such things as:

- Monetary savings through cost reductions
- Increased revenues
- Useful information for managers, policy-makers, and legislators to use in making decisions or evaluating performance

- More understandable information for public use
- Prevention of waste of resources
- Prevention or discouragement of employee irregularities
- Improving the quality of services or products
- Correcting or strengthening weaknesses in management systems
- Improved day-to-day performance of employees
- Prevention of unsafe practices or improvements in safety procedures
- Better administration of laws, including improved compliance with legal requirements.

GAO Position

In discussing the work of the GAO, I must emphasize that we recognize very clearly the unique position we occupy in the Federal Government's scheme of organization and checks and balances. Our independence as auditors of Federal operations is enhanced by being located in the legislative branch, by being given a very broad charter of authority and responsibility, and by being headed by two officials who are appointed for 15-year terms.

We recognize that, although comparable arrangements exist in some State and local governments, they are seldom found elsewhere--in industry or other non-governmental organizations, or in public accounting.

GAO's relative independence of operation and its performance has helped lead to a considerable broadening of the audit function in other levels of government and outside government. In short, the scope of GAO audit work is helping to serve as a beacon for other governmental audit organizations. We have published a statement of auditing standards that we recommend be applied in the auditing of government programs and activities. We think that frankly many State and local governments can benefit from an advancement in the nature and quality of the audit work performed by them or on their behalf.

We have sponsored a national audit forum and regional forums around the country made up of Federal, State, and local government auditors as a means of exchanging ideas and promoting a better and more useful brand of auditing at all levels.

Concluding Remarks

As noted at the beginning of these remarks, each organization has to adapt to the circumstances in which it has been created to operate. At the risk of being accused of undue bias, let me close by noting that one way to not only adapt but progress toward that general goal of more effective auditing and more useful and constructive impact is to observe and evaluate what others in the field are doing. The work of the GAO is in the public domain and its reports--most of which are publicly available--are a valuable source of information and ideas on how the audit function can be useful and have some desirable impact.

¹DOD's Requirement For Air-Conditioning Military Family Housing In Hawaii Is Unnecessary--B-172376--5/20/74

²Congressional Record, Sept. 11, 1974, p. S16395.

³Pesticides: Actions Needed To Protect The Consumer From Defective Products--B-133192--5/23/74

⁴Opportunity To Reduce Costs And Improve Efficiency By Employing Civilians Instead Of Marines--B-146890--6/19/74

⁵Congressional Objectives Of Federal Loans And Scholarships To Health Professions Students Not Being Met--B-164031(2)--5/24/74

⁶Congressional Record, June 5, 1974, p. S9672

⁷Congressional Record, Sept. 23, 1974, p. S17290

⁸Congressional Record, Sept. 24, 1974, p. S17438

⁹Modernization Of 1874 Mining Law Needed To Encourage Domestic Mineral Production, Protect The Environment, And Improve Public Land Management--B-118678--7/25/74